

STATEMENT

OF

MR. SAMUEL REA

PRESIDENT, THE PENNSYLVANIA RAILROAD SYSTEM

PRESENTED FEBRUARY 20, 1919

TO THE

COMMITTEE ON INTERSTATE COMMERCE OF THE
UNITED STATES SENATE

IN SUPPORT OF THE PLAN FOR THE

FUTURE MANAGEMENT AND REGULATION OF THE
RAILROADS PROPOSED BY THE ASSOCIATION
OF RAILWAY EXECUTIVES

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I am gratified that the railroad situation is to receive thorough consideration from this Committee, and I hope the remedial action that will be taken will bring the railroads out of a position involving future uncertainty. I believe it is possible to thoroughly consider and recommend a plan that can be put into operation in the twenty-one months following the exchange of ratifications of the Treaty of Peace, or earlier if appropriate legislation has in the meantime been enacted by Congress.

At the outset let us recall that in addition to operating under War conditions, the Railroads have had about thirty years experience under the Federal Act to Regulate Commerce. During the last ten years its scope was materially enlarged, and during the same time numerous and conflicting State regulatory laws were added. Many of these, unless otherwise provided by Congress, will again confront the railroads at the conclusion of Fed-

eral Control. It is very essential, therefore, that a comprehensive view of the railroad situation should be taken, and the existing laws and system of regulation revised, to meet the present and future problems of the National transportation industry. We cannot regard the Country as being adequately served with transportation lines and facilities. We are a progressive Nation, and our railroad transportation system must be expanded to meet constantly increasing traffic requirements.

To assist in the deliberate consideration of this important question the Railroad Executives have submitted a plan for the consideration of this Committee, concerning which I desire to express the following views:—

1. Private Ownership and Individual Operation and Initiative Should be Continued

The records of the past demonstrate that the American railways, under the system of ownership by the people and their institutions, and private management and operation as distinguished from Government ownership and operation, have produced the most efficient and cheapest transportation service, have paid the highest wages, and, I have little doubt, the highest taxes, in the world. The evidence of this has already been submitted in previous hearings before the Joint Committee of the Senate and House, generally known as the Newlands Committee. Therefore, the system that has achieved this for the Country should, as a matter of National policy, be continued, suitably modified to meet changing conditions.

2. Exclusive National Regulation of Rates, Interstate Commerce Instrumentalities, Railroad Securities and Important Capital Improvements

The necessity for exclusive National regulation of interstate carriers arises from the many State and Federal regulatory laws to some of which I will refer, and the numerous separate and independent Commissions created have naturally resulted in multiple and confusing regulation and policies that have seriously restricted the development of the railroads and the Country's business and resources. The conclusion, after many years of experience, is that sound railroad credit and improved facilities can be systematically secured only by concentrating the regulatory power and responsibility in the Federal Government, administered, however, through agencies convenient to the public of the several States.

The necessity for relief from such confusing laws and regulatory policies, with no single Governmental body responsible for final results, may be illustrated by the financial condition of most of the roads for several years prior to the War. Examine the Pennsylvania System with which I am most familiar, and which is National in its service and location. It is located in thirteen States, containing about one-half the population of the Country, lying between the Mississippi River and the Atlantic seaboard, and north of the Ohio and Potomac Rivers, most of the important commercial, manufacturing and mining centers of the Country being located in these States. The public service of the Pennsylvania

System represents about twelve per cent. of the revenue ton mileage of all the railroads of the Country. Its property investment in road and equipment is over \$1,720,000,000. The system comprises over 11,000 miles of first main track, but 26,000 miles of all tracks and sidings. The traffic of the Pennsylvania System is largely interstate passenger and freight traffic, because its lines follow long-established through commercial trade routes.

The parent Company was chartered in 1846 and built a railroad from Harrisburg to Pittsburgh, and subsequently the State of Pennsylvania sold to the Pennsylvania Railroad its own unprofitable public works, consisting of railroads and canals extending from Philadelphia to Pittsburgh.

Under State laws the system was extended into other States than Pennsylvania, through leases and the purchase or guarantee of stocks and bonds of other connecting and traffic-feeding railroad corporations. These State laws differ as to the formation of railroad corporations and the requirements concerning Boards of Directors; in the number of Directors; in the width of road-bed prescribed; in condemnation proceedings; in railroad widening and improving; and in the acquisition of lands for terminals and yards, etc. They also differ essentially as to the powers of a railroad company in the creation, issue and approval of securities, and in the acquisition, consolidation or merger of railroad companies, in which there is between some of the States absolute disagreement owing to conflicting laws.

Confusion as to Rates

The same confusion is noted in rate questions, and this is a well-known situation all over the Country. The policy laid down by the Interstate Commerce Commission on behalf of the Nation is, or may be, largely nullified by any State. This presents another argument for National regulation to develop the transportation system and efficiency, and emphasizes the necessity for unified Federal regulation, and if it were adopted I feel that railroad credit would be much stronger, and more stable.

Confusing Regulation of Some Operating Features

There is also serious confusion with regard to operating features, such as Extra Crew Laws, motive power appliances, crossings, duplicate and separate investigations of accidents, and differences as to proper minimum clearances for overhead and side obstructions. Each State naturally views these matters from the standpoint of its own laws, interests and policies, which change frequently and obstruct a unified policy of the Federal Government.

The waste and lack of responsibility behind such multiple regulations, with the resultant insufficient net profits, has caused capital to be reluctant to enter into new railroad projects, and new railroad construction has been brought to a standstill, notwithstanding the increase of population and traffic.

Railroad Traffic is Chiefly Interstate

I estimate that the interstate traffic revenues of the railroads is about 85 per cent. of the whole,

and even in States served by the Pennsylvania System, rich in natural and manufacturing resources and with a large consuming population, the traffic revenues before the War were about 70 per cent. interstate and 30 per cent. intrastate. Railroads being, therefore, chiefly National carriers, it follows that the National authority should be responsible for their regulation in the entire Country.

Railroad Credit on Too Narrow a Margin

These repressive laws and different, and often conflicting, regulations have not permitted the necessary margin of credit upon which to obtain capital for improvements and facilities and have thereby restricted the Country's development. Practically all the railroads that raised additional capital for several years preceding the war were compelled to do so through increasing their debts by issues of bonds or notes, rather than through the sale of capital stock. Even in the active year 1916 not a single share of new capital stock was subscribed to or listed on the New York Stock Exchange for any large railroad system. Railroad companies which tried to make such stock issues were compelled to withdraw those issues, and others had to resort to short term notes in lieu of long term securities, all because the margin of profit on railroad securities was too small and the confidence of railroad investors was disturbed.

National Regulation of Security Issues and Important Construction Expenditures

From what I have stated it is evident that in my opinion the railroad question is chiefly one

of National transportation facilities, National traffic and National finance. Therefore, in a complete system of Federal regulation, the exclusive power to supervise and authorize the issue of securities by Interstate carriers should be the function of the National Government. The railroads should have the approval of the Secretary of Transportation, whose powers and duties I will hereafter refer to, for the issue of securities to provide for their needs, and similar approval for important capital expenditures for extensions, branches and terminals. These duties are exceedingly important from a financial and traffic standpoint, and they will require prompt action in their discharge for which some executive officer of the Government should be responsible.

3. Relief of the Interstate Commerce Commission

I have for many years believed that, by reason of the growth of Federal laws and regulation requiring the discharge of extensive judicial, executive and administrative duties, the Interstate Commerce Commission should be relieved of some of its present duties. The termination of Federal Control will again burden the Commission with the stupendous work of handling numerous rate cases and tariffs, railroad accounting, safety appliance acts, hours of service laws, railroad valuation, traffic congestion and car distribution. The suggestions in the plan presented by us to relieve it from executive and administrative duties, and constitute it a judicial body to pass upon complaints concerning the reasonableness and adequacy of rates and traffic practices, and to deal

with discriminations, but retaining the supervision of railroad accounting and railroad valuation, are demanded in the interests of good business, and the welfare of the public and the railroads.

4. Department of Transportation

To undertake the administrative and executive duties of the Commission with reference to the railroads, the suggestion is made for the creation of a Department of Transportation with a Cabinet Officer called the "Secretary of Transportation" as its head, and such administrative assistants as may be essential to properly observe the transportation needs, and adequately provide for the same by such orders as he may be authorized to make, by suggestions and co-operation with the carriers, and by representations to the Interstate Commerce Commission and the President. He would also be responsible for the approval of adequate rates and revenues to provide and maintain such proper service and facilities, and create railroad credit sufficient to meet public demands. He would also be required to protect the just interests of employes, shippers and the traveling public. He would recommend to the President such measures and policies as would promote the public interest and the adequacy of the transportation service. He would deal with suggestions of the railroads as to traffic distribution, and the joint use of terminals, distribution of equipment, and also a proper car supply for shippers. His approval should be essential to new issues of securities, and important capital expenditures for extensions, branches and terminals. He

would have power to approve or disapprove decisions of the Wage Regulation Board on questions respecting wages and working conditions.

To my mind, if there has been one helpful situation during the War to prevent delay and secure results, it was the power of the Director General to decide transportation questions promptly. The railroad companies and the Secretary of Transportation, charged with executive and administrative duties, should be left in relatively an equally strong position to act promptly and decisively in executive and administrative questions, subject, however, to appeals to the Interstate Commerce Commission if the public interests are not properly safeguarded. Through this officer the transportation necessities would become the direct responsibility of the Government to the Country at large, but this officer would not operate the Railroads nor appoint any of their officers or employes.

5. Regional Commissions

Suggestion is made that the Interstate Commerce Commission may divide the United States into such number of regions as it may deem wise and as the President may approve, and Regional Commissions should be created, consisting of one member for each of the States embraced in such region, to provide some regulating agencies convenient to the people of the several States. Decisions of the Regional Commissions should be final unless the Interstate Commerce Commission shall otherwise order.

State Commissions and their Duties

The State Commissions, however, should continue to deal with the regulation of State public utilities, and to perform such other duties as may be imposed upon them by their respective States, but as to interstate commerce their powers should only include the regulation of such of the intrastate duties of interstate carriers as do not affect other States, or the relative burden of furnishing and sustaining the facilities and instrumentalities of commerce on which other States are likewise dependent. It seems quite clear that no State should possess the power, or be willing for any other State to possess the power, to create discriminations between the traffic in one State and the traffic in another, or by inadequate rates to make a smaller contribution than their sister States to the support of the transportation facilities on which both States are obliged to rely for the carrying of their traffic. No matter how able, or just, the State Commissions may be, they are of themselves unable to relieve interstate carriers from the conflicts or burdens imposed by their own, and other State laws.

A couple of years ago I looked into the duties and work of the Pennsylvania Public Service Commission and found there were over 3700 public service corporations under its regulatory supervision, of which only 286, or less than 8 per cent., were active railroads. Now, while admitting the importance of active railroads, there were still 3414 corporations carrying on 27 different varieties of public service with millions of dollars of capitalization, with their rates, service and

all other activities affecting over 8,000,000 people. State Commissions are kept busily employed and with the growth of population and business their responsibilities will increase.

6. Rates—Their Initiation, Approval and Review

The ability to promptly initiate reasonable rates would be helpful to business, and would remove the uncertainty that has hurt railroad credit in the past.

The carriers should have the power to initiate rates to accord with the business conditions they are forced to meet, filing them with the Secretary of Transportation for approval, with the Interstate Commerce Commission, and with the State Commissions; such rates to become effective thirty days after being filed, unless a shorter period is authorized by the Secretary of Transportation. All rates complained of by the public should go to the Interstate Commerce Commission for review, and for that purpose, in respect of rates not approved by the Secretary of Transportation, sixty days suspension should be allowed, so that in cases of such suspension ninety days would elapse between the notice of rate changes and the final disposal of the question by the Interstate Commerce Commission.

In the event that the period mentioned is not sufficient to enable the Interstate Commerce Commission to properly consider and pass on the rates, the rates should be allowed at the expiration of suspension to go into effect; the rights of the shippers thereafter to be protected by suitable provisions for reparation.

The Interstate Commerce Commission should also have the final power to decide minimum as well as maximum rates, and to determine the relations of rates and differentials whenever necessary.

7. Statutory Rule for Reasonable and Adequate Rates

No scheme of railroad regulation can be successful unless there is provided in the statute itself an assurance that the returns from railroad operations will be sufficient to pay operating expenses and taxes, to give a proper return on the investment, and to furnish a basis of credit adequate to provide for the public needs for improved and extended facilities. Otherwise we will see a repetition of restricted railroad credit with its disastrous consequences of limited facilities, inadequate for the commerce of the Country. Practical experience demonstrates that only by accommodating the public is it possible for the carriers to be successful, and continue a sound system of finance for any period of time.

8. Wage Regulatory Board

It is clearly in the public interest, and equitable to both labor and capital, that there should be no impairment or interruption of the movement of trains. The consequences of such interruption on the food and fuel supply and the welfare of the Country are so vital, and the loss to business and the interruption of communication so great, as to bring about an appalling and unnecessary loss and

sacrifice. Accordingly, the Secretary of Transportation should have a Wage Regulatory Board on which the public, the employes and the employers should have equal representation. Its conclusions should go to the Secretary of Transportation, who should be the final authority to decide wages and conditions of service. Pending such investigation there should be no lock-outs and no interruptions of service. The scale of wages and the expense incident to any change in working conditions recommended by the Wage Board, and approved by the Secretary of Transportation, when put into effect should be recognized in the making of rates as a legitimate expense in transportation in the public interest.

9. Corporate Unification and Co-Operation With Other Carriers

It is clear from the experience of the past and from the testimony already before this Committee by the Director General, and from the suggestions of the President of the United States to Congress, that existing laws should be modified to bring about further railroad unification and co-operation among the carriers. In the Pennsylvania System there are 140 active corporations constituting the Railroad System, consisting of several operating railroad companies, also companies whose roads are operated under lease or contract, bridge companies, ferry companies, electric railway companies, storage companies, terminal companies and water supply companies. While these 140 companies represent what were

originally about 600 separate small companies, further unification is desirable on equitable terms, and could be accomplished better and quicker under National legislation. Therefore, as I assume the conditions on the Pennsylvania System to be typical of many of the larger systems, the interstate carriers should be given authority to acquire the property, stocks and securities of feeding and connecting lines in their territory, including lessor companies, and to accomplish consolidations and mergers subject to the approval of the Secretary of Transportation. In view of the manifest tendency of public opinion toward proper and useful consolidation of railroad properties, it is necessary to remember that the laws of many of the States, in their conflicting statutory provisions, and in their prohibitions against consolidations, constitute an insuperable obstacle in the way of carrying out any such policy unless National authority is obtained for it.

Subject to his approval, the carriers should also be able to enter into agreements and understandings in respect to any co-operative arrangements based upon experience, which may be found in the public interest, and consistent with efficiency and economical railroad transportation.

10. Funding of Indebtedness Growing Out of Federal Control

As a safeguard against delay or uncertainty that may ensue in making final financial settlements between the railroads and the Government when released from Federal control, and to avoid

any disruption of the financial structure of the Country, it may be essential that provision should be made to fund the indebtedness of any carriers to the United States growing out of Federal control.

11. Federal Incorporation

Federal incorporation of the existing interstate carriers may be essential to more effectually carry out the foregoing plan. All contract rights, assets and all powers and franchises, as far as possible, of the existing corporations should be preserved, in addition to such general powers as may be conferred upon the corporations by such Federal Incorporation Act.

Conclusion

Under such a general system of responsible National regulation, containing statutory provisions that will insure reasonable and adequate rates, the railroad companies should be self-sustaining and able to properly serve the public, and they should not become an obstacle to industrial and commercial progress, nor weaken the financial and credit stability of the Nation. Many different plans have been referred to in the public press as a basis for future railroad relations with the public and the Government, but I believe that the principles of the plan suggested by the Railroad Executives should form the basis of future Congressional legislation, and will prove more satisfactory and less costly than any other system of public regulation, control or ownership so far suggested.

Under the plan suggested by the Railroad Executives, the Nation will continue real ownership by individual citizens and their institutions of the railroads and their operation and use by them, subject to the responsible National regulation herein outlined; will preserve individual initiative; will avoid the disturbance and economic waste caused by changing policies and divided responsibilities; will be able to respond promptly to commercial needs and necessities; and also be free from other drawbacks that have resulted wherever Government ownership and control has been applied.